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"Edited by Author"

**SOVIET ECONOMY: GENERAL FEATURES**

By

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MR. VILLARD: Introduced the speaker.

25X1A9a [REDACTED] Thank you, Mr. Villard. I couldn't help thinking, while I was listening to that flattering introduction, of an introduction which I heard last week, where the subject was not too dissimilar to the one we are discussing today. The subject was Communism in Turkey, and the gentleman who made the introduction said the speaker had two qualifications which made him eligible to talk on this subject: One was that he was a card-carrying Communist, and the second was that for many years he had been well known as a Turki. Now, I am sure you gentlemen are aware from my agency affiliation I can't qualify on the first count. I am not a card-carrying Communist. I will have to leave it to your judgment when this presentation is over as to whether or not I can qualify on the second count.

I think it would be wise to talk for just a minute about the relations between Communism and the Soviet economy. It would be a distortion to say that the Communist philosophy is primarily an economic one. Communism is, however, a great deal more than a political challenge; it is above all else an economic way of life. In support of this view, I cite the eminent political scientist and former Ambassador to the Kremlin, Mr. George Kennan,

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who said this economic way of life was one that governed the whole way the Soviet looked at their public life and what he called the "physiognomy of their society".

What is the Communist economic philosophy? I am sure you are all aware of the traditional distinctions which are made between the capitalist economy and Communist economy, familiar institutional differences of the ownership of the means of production, for example, state ownership on the Communist side and predominantly private ownership on the capitalist side.

But far more important, it seems to me, than the question of who owns what is the question of what are these resources used for. Why do we engage in all of this economic activity? In the West we have what are predominantly known as market economies. These market economies are ones in which the major decisions on the course of events are made by private individuals. Private individuals decide how much to save and how much to spend. And these decisions, in turn, are reflected in the marketplace as demands or lack of demands for various kinds of goods. In turn, these demands may be reflected back onto the structuring of the entire economy. It is not surprising that in market-oriented economies a relatively large share of total output is normally used as home consumption, because this is really implicit in the concept of consumer autonomy.

In a Communist society, on the other hand, the end result of economic activity is to meet the objectives of the state, the objectives which are set by the leaders of the state, and they,

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having made the basic decisions, rigidly control the allocation of resources and manpower to see to it that these objectives are (not) met.

It is not surprising, however, in a Soviet society *that* relatively little is spent for consumption and a relatively large amount goes for investment. These trends are still going on, as we can see from our chart (6024).

Here we have a comparison of amounts devoted to consumption, the lower part of the chart, and to investment, the upper part of the chart, in the Soviet Union from 1948 to the present time. And it is projected forward to 1960 based on the plans of the Sixth Five-Year Plan. You can see that investment has gone up from relatively 17 percent in 1948 to approximately 24 percent today, and scheduled further to be about 28 percent by 1960 of the total output.

In contrast, the consumption outlays are going down from about 64 percent to about 58 percent by 1960.

Now, the central theme of Soviet economic policy, which has been unchanged since the beginning, is forced-draft industrialization. Stalin himself publicly stated the reason for this at the time the First Five-Year Plan went into effect. Russia, he said, had been beaten many times in the past because she was weak, and in order to protect herself she must make good the distance which she lagged behind the more advanced capitalist nations, and she must make this move quickly. Only then will it be possible for her

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to enjoy relative safety, and only then will it be possible to pay any serious attention to living standards in the Soviet Union.

As Mr. Willard said, it is a very brief period in the course of history that this Soviet system has been in effect. It is actually now less than thirty years since the first Five-Year Plan was put into effect after the political battle had been resolved in the Soviet Union.

In this brief time, the Soviet economy has grown from essentially an agrarian one to undisputed place as the second largest economy in the world, and when I say undisputed, I mean total production of goods and services last year was about one and three-quarter times that of the United Kingdom, which is the third largest economy in the world.

This growth, which is even more remarkable considering the destructive effects of World War II, was made possible by four measures. These, I think, are the most important.

- (1) Transfer of millions of workers from agriculture to urban occupations;
- (2) A parallel prodigious effort to educate the workers in modern skills and technology;
- (3) The diversion of an unusually large proportion (1-1/2 to 2 times that of the United States) of national product to investment; and
- (4) The concentration of investment funds in heavy industry, particularly electric power, steel, and producer goods.

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The logical result is that the USSR treats the welfare of its people as a minimum requirement in planning and essentially as a residual in plan execution.

Two examples make this clear:

- (1) While capital goods output rose over ten times in successive Five-Year Plans since 1928, agricultural production failed to match the growth of population -- implying some decrease in living standards.
- (2) Plan goals for heavy industry are usually surpassed, while the correspondingly modest goals for consumer goods are chronically underfulfilled.

Where has this course of action led the Soviets in their drive to catch up with the West, particularly with the United States?

I would like to make this comparison in three ways:

- (1) By comparing total output, or gross national product, in the two countries;
- (2) By comparing industrial production; and, finally,
- (3) By examining the output of some key producer goods in contrast to consumer goods.

Here we have a comparison of Gross National Product in the Soviet Union and the United States from 1948 through the plan of 1960 (6025). Looking at 1955 you can see that total output in the Soviet Union is slightly over a third of that in the United States, that between 1948 and 1955 the value of output compared with the United States increased from roughly a quarter to this level of

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slightly over a third, and that by 1960 it will be something over 40 percent of the United States.

Now, the relative <sup>proportion</sup> levels of industrial output in the two countries are not strikingly different than that. If we were to superimpose on this chart a trend of industrial production, the only difference we would find is that the rate of increase in the Soviet Union is slightly larger than that. But if one moves from industrial production as a whole to heavy industry, here the relative rate of growth is even more strikingly different. For heavy industry in the Soviet the rate of growth is roughly twice that of the United States. Even more striking, I think, is to get down to the production of individual types of commodities, producers goods on the one hand, and consumers goods on the other.

On the left hand side of this chart (6026) we have a comparison between coal, machine tools, and steel capital goods, and consumer goods on the right hand side.

If you look at the left hand side of the chart you can see coal production in the Soviet Union in 1955 is almost equal to that in the United States; that their output of machine tools was in fact even greater than our own; that steel production, while substantial, was still somewhat less than half that of the United States. Here I would like to draw your attention to the fact that looking at the Sixth Five-Year Plan the absolute amounts of increase in steel capacity in the two countries over the next five years will be about the same, that is, five million tons a year,

and this in turn must mean that the levels of output in the steel equipment producing industries are about the same in the two countries.

If you move over to the right hand side of the chart, the contrast is rather startling. Our output of automobiles is almost 90 times that of the Soviet Union. Our output of washing machines is over 50 times greater, and even the output of radio and television sets is about five times that of the USSR.

So it is this plowing back of every possible ruble into the means of production that is responsible for the achievement of the high rate of growth of the Soviet economy today.

A legitimate question at this point is, how do the Soviet leaders get away with it? Why don't the Russian people insist on a larger share of the pie? The Soviet leadership has employed a variety of means to keep the industrialization drive going at top speed. These include propaganda — appeals to patriotism and picturing Western World leaders as "warmongers" bent on destroying the Soviet homeland; economic incentives to the governmental and technical elites, evidenced by enormous differences in salary payments and privileges; and force — the repression of all opposition. I would like to take a minute to tell you a story about the effects of police control on the people. This story is only slightly less probable today than in Stalin's time. It seems that an American, a Swede, and a Russian were at an international Conference of surgeons and were describing their most difficult



operations. The American described a delicate brain operation — the Swede's was a complicated stomach operation. Then they turned to the Russian and asked, "And what was your most difficult operation?"

"I took out a man's tonsils," replied the Russian.

The two other doctors were astonished. Removing a person's tonsils was one of the easiest of operations. "What was so difficult about that?" they asked.

"Well, you see in Russia everyone is afraid to open his mouth; so I had to approach it from a new angle."

I would like to turn now from a consideration on Communist economic policy and over-all development to a brief discussion of the internal functioning of the Soviet system, specifically to economic planning. Such planning is primarily a means of achieving the successive goals of production decided upon by the Soviet leadership.

The outstanding characteristic of economic planning in the Soviet Union is the centralization of decision making. While Stalin was alive, he personally made all the major decisions. This authority is presently concentrated in the hands of the Party Presidium, of the Council of Ministers, <sup>the</sup> the top governmental organization charged with carrying out the decisions of the Party Leadership. The main features of the organizational structure are shown on the following chart (6027).

1. At the left, we see the top policy organization of the Soviet Union, the Presidium of the Party, presided over by

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Khrushchev.

2. At the center is the Presidium of the Council of Ministers, of which Bulganin is Chairman. This group, with the assistance of the various planning staffs,

- a. Sets the output goals for each major product;
- b. Fixes responsibility for the share to be produced by each Ministry and also approves the recommendations of the ministries' distribution of responsibility among individual plants;
- c. For major products, reviews decisions on material, labor and capital inputs; and, finally,
- d. Reviews progress to insure fulfillment of goals.

3. Directly below the Presidium is the Council of Ministers itself, composed primarily of the heads of the various economic ministries, and including the chief administrators of various noneconomic ministries as well.

4. With respect to the specialized producing ministries themselves, such as coal, petroleum, and chemicals, there has been a great variation in numbers over the past ten years. There are now about 30 producing economic ministries.

5. The line organization of the ministries is composed of a series of specialized chief directorates which may be organized along territorial or functional lines.

6. Finally, we come to the individual production unit, which is at the end of the line.

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Extreme centralization of decision-making requires the transmission of detailed instructions to the subordinate units. Not only is there a heavy flow of specific instructions down through the various echelons of the economic organization, but also there is a corresponding reverse flow of extremely detailed statistical reports up to the central authorities.

In practice, the national economic plan is developed according to a system of rigid priorities. A limited number of industries has been consistently favored in the allocation of resources. These include the so-called leading links such as electric power, fuels, and metallurgy, and the key engineering and defense industries. Once the output goals for these sectors have been decided upon and the necessary inputs provided for, the bulk of available resources has been committed. Everyone becomes caught up in the tempo of heavy industry plan fulfillment because production is the great god -- it is more important than money or people or machines.

A logical consequence of setting highly ambitious production goals is that the Soviet economy is chronically short of everything. Machinery, transportation, and people are worked at, or close to, maximum possible limits. To some Western observers these outward manifestations in the Soviet economy such as the uneven tempo of production; the use of very old equipment in industry, particularly in consumer goods factories; and the resort of some plant managers to extra-legal methods are evidence that the

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economy is out of joint. But viewed through the eyes of the Russian leaders, the scene appears very different. They decided on the relative priorities to pull a backward nation up by its industrial bootstraps. They planned it that way, and in large measure they have achieved the results they were after.

To move on, I should like to review for you, in very brief fashion, the elements of the national economic plan. Actually, there are thirteen interrelated sub-plans which make up the whole, and on our next chart the more important ones are highlighted. (6028)

1. Aggregate Indices of Activity. These are monetary estimates of such key elements as gross value of output for industry, agriculture, transport, the volume of retail and foreign trade, the value of capital investment, and so forth.

2. Production. By this production plan they have the most important part of the whole plan, because once these goals are set, the rest of the plan is really a reflection of decisions necessary to reach these goals. This plan doesn't specify solely the output of steel. It specifies the output of each sub-type of steel by quantity, by quality, etc. And the same kind of detail appears in this production plan through each element of the economy.

3. Material Technical Supply. As you know, the Soviets centrally essentially administer the allocation of something over a thousand commodities to see to it that each kind of producer gets the necessary input of materials, of capital goods, etc., to meet his planned goal.

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4. Capital Investment. The capital investment sub-plan has two primary functions. First, it provides the increased capital stock estimated to be necessary to meet future production goals. Second, it distributes investment resources in accordance with the priority preferences decided upon by the Soviet leaders.

5. Technology. The introduction of new technological processes has been a separate sub-plan since 1941. The need for industrial innovation has become much more important within the past year because of the need to increase labor productivity.

6. Labor and Cadres. This part of the plan schedules increments to the non-agricultural labor force in accordance with over-all production goals and the planned average increase in output per worker. It also covers technical training plans.

7. Cost of Production (Sebestoimost). These are production cost estimates prepared for each commodity and essential service, which are combined to provide an estimate of total costs.

Because of time limitations, I shall skip over the next three items as well as the final two, and turn to the

11. State Budget. The primary function of the state budget is to mobilize the financial resources of the economy and to direct their flow to accomplish the production objectives. The most important financial resource flows are, on the income side, the income from profits of enterprises and the turnover tax. On the expenditure side, the most important allocations are to investment and defense.

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As you have no doubt already concluded, the whole system is a statistician's idea of heaven. Dealing with all the paper work and figures is undoubtedly more fun than working, and apparently many Russians think so too. Evidence of this are the constantly recurring drives to cut down on the size of the bureaucracy.

To move ahead with our survey, there are three areas of economic policy where we have recently seen significant shifts. These are in the field of labor productivity, agriculture, and foreign trade.

Until very recently, the Soviets were able to get the labor they needed for the expansion of industry by drawing upon the underutilized labor force in the countryside. The effects of collectivization in the 1930s were to insure in good years and bad an urban food supply. But, as a result of traditional neglect of agriculture, which was always given the tail-end of investment allocations, the agricultural surpluses disappeared in the Soviet Union so that by 1954 we saw something which was really spectacular, and that was for the first time in history the Soviet bloc was on a net import basis as far as food was concerned.

Furthermore, the Soviets had to pay some serious attention to labor because not only was it no longer possible to draw upon the agricultural labor force for industry, the effects of World War II were reflected in the net accretions to the labor force, something like three million less new workers were coming in in the next five years compared with the past five years — three million

net reduction of accretions to the labor force. As a result, the Soviets today are placing enormous emphasis on improving labor productivity. In order to do that, they have renounced two parts of the doctrine which they have been holding to. The first was the idea of obsolescence was in some way peculiar to a capitalist economy and it didn't happen in the Soviet Union; nothing was obsolescent until it actually fell apart. And secondly, there was something sinister and absolutely unpatriotic about paying any attention to what was going on in Western industries because obviously Soviet industry was so much more superior. You have heard all these things about how they invented everything. It was part of a program against what they called "kowtowing to the West".

In order to improve labor productivity, of course, the Soviets have to draw more heavily on Western technology. Therefore, they have ridiculed this concept of not paying attention to the West, in fact, have ordered all the plant managers to pay a great deal of attention to this. Also as a result of this policy, for the first time since the Communists have taken over there is serious attention being paid to the replacement of obsolete machinery in the Soviet Union today. The Soviets have a long way to go before they catch up with the level of productivity in the United States.

Here I have a chart which shows the comparison of population in labor force in the Soviet Union and in the United States (6029), and I would like to make three points about it:

1. As you can see from the total civilian employment figure in the two countries, the Soviets have a far higher proportion of total population in the civilian labor force than we do -- 47 percent compared with 40 percent in our own country.

2. The agricultural labor force, which is represented here on the chart shows the state of labor productivity in agriculture. In the Soviet Union there is roughly one agricultural worker to four of the total population. In our country there is roughly one to 21. So it is 1-to-4 in the Soviet Union, to 1-to-21 in our country, which I think is a good measure of how backward Soviet agriculture is.

3. The <sup>industrial</sup> labor forces of the two countries is not very different, but the value of the output is about three times greater in the United States than it is in the USSR. And this three to one ratio is a good general measure of the level of industrial productivity.

Apart from the great emphasis on technological innovation to improve labor productivity, the major recent shift in internal economic policy concerns agriculture. For many years, agriculture was the stepchild in the distribution of investment funds. Collectivization in the 1930s, by insuring an urban food supply in good years and bad, freed industry for over two decades from the restraints which might have been imposed by the low level of agricultural output. Stagnation in agriculture was dramatically shown in 1954, when total grain output was lower than in 1937, and,



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of course, per capita output was very much lower. Further, livestock herds were smaller than in 1928. In 1954 the Sino-Soviet Bloc as a whole was a net importer of foodstuffs for the first time in history.

Realizing that the continued growth of heavy industry will depend far more heavily on agricultural production than has been true in the past, the Soviet leaders have taken a number of steps to overcome the deficiencies of agricultures.

For the next few years, the agricultural labor force will be maintained in numbers, improved in skills, and given higher income incentives. It has been provided with a larger share of investment funds over the past two years, and such outlays are planned to double by 1960.

At the core of the agricultural program are the New Lands and corn projects. In combination, these schemes seek to provide adequate bread supplies and at the same time to increase fodder output rapidly in order to support ambitious goals for livestock products. Even though the New Lands program pushed <sup>cultivation</sup> ~~civilization~~ into distinctly marginal areas, to date it has met with considerable success. Over the past two years about 75 million acres have been reclaimed, about half in Siberia and half in Kazakhstan. The corn project, being carried out in the traditional farming areas, is designed to improve the quality of the average Soviet diet by adding about 25 percent more meat and milk by 1960. Let's take a look at comparative diets in the USSR and our own country. (6030)

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1. Soviet diet is adequate in calories.
2. However, it is overwhelmingly a grain and potatoes diet. These two staples constitute nearly three-fourths of total consumption.
3. Diet, by United States standards, is deficient in fats and oils and milk.
4. The widest discrepancy is in meat. In the United States, 13 percent of the daily intake of calories is accounted for by meat and fish, compared to only four percent in the USSR.

The result is that the Soviet diet is uninspiring; it is a drag on worker incentives in industry. A typical complaint of Soviet workers, when urged to increase output, has been -- "Why work harder to earn more rubles when all they will buy is more black bread?"

Even though the USSR has a huge land mass, land suitable for agricultural purposes approximates that of the United States. Further, soil-climate relationships are much less satisfactory than in our own country, more than offsetting the greater acreage under cultivation. The Soviet Union, for example, has no area comparable to the corn belt in the United States. I have included some key comparative statistics on the next chart (6031).

1. Total cultivated area in the USSR is 543 million acres compared with our 410, but with this roughly one-third more acreage the Soviet Union produced about one-third less grain.
2. The contrast in yields per acre for grain are even greater. United States yields are nearly three times those of the USSR.

3. Despite the great prominence given to mechanization in Soviet agriculture, actually they have less than one-fifth as many tractors in use as we do. Apart from grain, few food crops in the USSR are mechanized.

Additional investment in Soviet agriculture during the Sixth Five-Year Plan is, in part, to increase mechanization so that average productivity will improve to a level that will allow the resumption of the flow of workers from the countryside into industry.

Apart from the possibility of securing needed foodstuffs by increasing domestic production, there is the added capability of importing supplies. This ties in directly with the post-Stalin Soviet program of increasing economic relations with the under-developed nations of the Free World, which moved into high gear in 1955.

This expansion of trade is economically advantageous to the USSR for two reasons:

1. It needs additional raw materials because of shortages of its own production -- for example, bauxite, copper, textile fibers, rubber, and diamonds.
2. It can use additional agricultural products which are available as export surpluses in many under-developed countries.

Furthermore, the USSR has developed its manufacturing

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capabilities to a point where it can now afford to export many types of industrial equipment in exchange for needed imports. The strength of the Soviet economy appears to have reduced historic Soviet fears of losing economic independence through reliance on foreign sources of supply. The Soviet leaders apparently realize that a marginal degree of reliance on non-Bloc sources of supply for certain foodstuffs and raw materials is preferable to a more rigid policy of autarchy, since it offers the promise of more rapid rates of economic growth. In addition, they see opportunities in such trade programs for encouraging political attitudes favorable to the USSR and for weakening existing military and political alignments in the Free World.

The USSR program is coordinated with the Satellites and has featured the granting of long-term credits which have amounted to over \$1.2 billion since early 1955. The program has also featured tours by leading Soviet officials, such as the Khrushchev-Bulganin tour of Southeast Asia. I suppose these tours, accompanied by hip-swinging gyrations and raucously shouted promises of great happiness to come, could be called the Elvis Presley school of international relations. However, Khrushchev's activities have had a very real impact on the underdeveloped countries, just as Elvis has had an impact on underdeveloped young ladies in our own nation.

Why are these nations susceptible to the Soviet line?

First, in all underdeveloped countries, there is tremendous pressure

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for economic betterment. The people as well as the leaders are convinced this requires rapid industrialization. Though generally dedicated to political and individual freedom, they will not remain loyal to these concepts if the price is economic stagnation. Living standards in these countries, even by Soviet standards, are very low.

Second, underdeveloped countries are inclined to believe the Soviet line that industrialization by free enterprise methods took 150 years in Western Europe and the United States, and they can't wait that long. Soviet propaganda, emphasizing that the USSR made itself into a great industrial power in one generation, starting from scratch and without any help from the West, is very appealing. The Soviets, of course, do not speak of the appalling cost in human suffering, its denial of human rights, and its sharp limitation on living standards.

I would like to conclude this brief presentation by taking a long-range look into the future. How do the Soviets presently plan their economic future, and how does this compare with the United States? (6032)

Here you see industrial growth in the Soviet Union compared with that in the United States for 1940 actually through 1955, the total results, the estimate for '60 and then a projection forward to '75 - '80. This means that if present trends continue, somewhere in this period the Soviet Union will be producing industrially about as much as the United States. This, of course,

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obviously would mean a profound altering in the relative power structures of the world.

I would like to summarize by saying that the Soviets have succeeded in creating an impressive level of economic output. This economy of theirs is a growing challenge to the West today, not only because it is creating an imposing military machine, but also because it is growing so rapidly. It has reached a level where it can not only continue to satisfy the internal demands for capital equipment to keep this growth going, but it can also satisfy a significant portion of the total capital equipment requirements of the underdeveloped areas. It is, therefore, obvious that the Soviets are using their economic strength along with their political propaganda for political purposes. The Kremlin leaders hope that in the short-run the new combination will undermine the solidarity of the West and their traditional position of power over these underdeveloped areas, and in the long-run will help achieve the Soviet goal of world domination without a shot being fired. And they look upon these as a means of doing it.

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